ANNUAL REPORT JUNE 30, 1974

digitech

DIGITECH LTD. A RESOURCE DEVELOPMENT SERVICE COMPANY

digitech

OFFICERS:

B. Berg, President
William D. Black, Vice-President
John D. Boyd, Vice-President
Robert R. Hobbs, Secretary-Treasurer

DIRECTORS:

B. Berg, President, Digitech Ltd., Calgary, Alberta
William D. Black, Vice-President, Digitech Ltd., Calgary, Alberta
Richard Burke, Vice-President, Canadian Enterprise Development Corporation Limited, Vancouver, B.C.
Roderick R. McDaniel, President of McDaniel Consultants (1965) Ltd., Calgary, Alberta
Linden J. Richards, Chairman of the Board of Directors of Quintana Exploration Co., Calgary, Alberta
David B. Robson, President of Macrovest Limited, Calgary, Alberta
Donald G. Thurston, Corporate Development Analyst of Bow Valley Industries Ltd., Calgary, Alberta

HEAD OFFICE:

500, 441 - 5 Avenue S.W.
Calgary, Alberta

TRANSFER AGENTS AND REGISTRARS:

Montreal Trust Company
Calgary, Toronto and Vancouver

AUDITORS:

Price Waterhouse & Co.
Calgary, Alberta

LEGAL COUNSEL:

Macleod Dixon
Calgary, Alberta

BANKERS:

The Toronto-Dominion Bank
Calgary, Alberta

STOCK LISTED:

Toronto Stock Exchange

DIGITECH LTD.

CONSOLIDATED STATEMENT OF INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30, 1973	Three Months Ended December 31, 1973	Six Months Ended Dec. 31, 1973 (Cumulative)
Revenue	$ 705,300	$ 835,745	$1,541,045
Expenses:			
Direct	615,582	573,440	1,189,022
General and administrative	147,120	206,946	354,066
Amortization and depreciation	73,770	64,928	138,698
	836,472	845,314	1,681,786
	(131,172)	(9,569)	(140,741)
Unusual Items:			
Loss on disposal of technical equipment	(13,009)	(90,903)	(103,912)
Gain on the sale of share of an affiliated company	—	49,066	49,066
	(13,009)	(41,837)	(54,846)
Loss for the period before corporate tax recovery	(144,181)	(51,406)	(195,587)
Corporate tax recovery	3,000	31,112	34,112
Loss for the period after corporate tax recovery	$ (141,181)	$ (20,294)	$ (161,475)
Loss per share	$ (.09)	$ (.01)	$ (.10)
Weighted monthly average number of outstanding shares	1,584,150	1,584,150	1,584,150

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(Unaudited)

	Three Months Ended September 30, 1973	Three Months Ended December 31, 1973	Six Months Ended December 31, 1973
Source of Funds:			
Operations:			
(Loss) for the period	$ (141,181)	$ (20,294)	$ (161,475)
Add back amortization and depreciation which do not require an outlay of funds	73,770	64,928	138,698
Cash flow from operations	(67,411)	44,634	(22,777)
Disposal of technical equipment	163,836	187,245	351,081
Issue (reduction) of long term debt	(101,867)	653,025	551,158
Issue of capital stock	16,000	—	16,000
	10,558	884,904	895,462
Application of Funds:			
Purchase of fixed assets	5,199	119,668	124,867
Increase in investment in affiliated company	147,500	46,152	193,652
Purchase of technical systems	—	390,000	390,000
Increase in deferred charges	25,137	6,663	31,800
	177,836	562,483	740,319
Increase (Decrease) in working capital	$ (167,278)	$ 322,421	$ 155,143
Working Capital:			
Current assets	$ 929,311	$1,227,379	$1,227,379
Current liabilities	1,341,654	1,317,301	1,317,301
Working capital deficiency end of period	412,343	89,922	89,922
Working capital deficiency beginning of period	245,065	412,343	245,065
Increase (Decrease) in working capital	$ (167,278)	$ 322,421	$ 155,143

LITHOGRAPHED IN CANADA

INTERIM REPORT TO SHAREHOLDERS

For Six Months Ended December 31, 1973

500, 441 - 5th Avenue South West
Calgary, Alberta, Canada

TO THE SHAREHOLDERS:

The second quarter results of operations of your Company reflect a major improvement over the first quarter. Since the amalgamation of Digitech and CDP last August 10, a series of operational and financial changes have been made with the objective of creating a firmly established base for future profits. Some of these changes began to take effect in the second quarter. They include:

- Long term financing to provide a substantial improvement in the working capital position
- Sale of two computers and refinancing of related debt over a longer period
- Purchase of the outstanding 50% ownership in the Omega file, an extremely valuable file of computerized information on all 60,000 wells in Western Canada

The effects of these changes are as follows:

- Sales were 18% higher at $835,000 for the second quarter resulting in $1,541,000 for the first half
- Cash flow from operations was $45,000 after a first quarter deficiency of $67,000, an improvement of $112,000 from one quarter to the next
- The working capital deficit position improved from $245,000 at the beginning of the six months period to $90,000 at the end
- The Company experienced a loss of $20,000 (1¢ per share) compared to the first quarter loss of $141,000 (9¢ per share) resulting in a total first half loss of $161,000 (10¢ per share)

The major part of the first half loss was a write-off of $104,000 taken on disposition of two computers that were not needed for the company's operations.

PURCHASE OF OMEGA FILE

For some time your Company has owned a 50% interest in the Omega file, a computerized record of the geological and geophysical data from all 60,000 wells drilled in Western Canada. Using funds obtained through refinancing and from operations, the Company acquired the outstanding 50% interest in this file for $390,000. The file has been a steady revenue producer as a source of drilling information for Canada's oil companies.

FINANCING

In the second quarter two companies provided a total of $287,500 in long term financing to Digitech. Terms of the agreement with Bow Valley Industries Ltd. of Calgary and Canadian Enterprise Development Corporation Limited of Montreal provide that either company can convert all or any of their notes into a total of 231,854 common shares of Digitech up until November 1, 1980.

A second arrangement with Canadian Enterprise Development in January, 1974, after the period covered by this report, brought $75,000 additional funds into Digitech.

DISPOSITION OF COMPUTER

In another arrangement worked out to both improve working capital and cut losses, Digitech negotiated the disposition of two computers. A loss on disposition of $104,000 was absorbed and $157,000 in payments still due were converted from current liabilities to long term debt.

OUTLOOK

The outlook for the third quarter is excellent with contracts in hand sufficient to exceed the second quarter revenue. The Company is cautiously optimistic about fourth quarter performance. A possible seasonal decline may be more than counterbalanced by strong demands related to the rapidly increasing search for oil and gas in all three of your Company's areas of operation — Canada, the Gulf Coast of the United States and Great Britain. In addition, the Company has diversified its operations into technical computer services which should provide revenue that is not dependent on seasonal fluctuations of the petroleum industry.

B. BERG,
President

February 22, 1974

This is the second quarterly report by your Company since the amalgamation of Digitech Corp. Ltd., Digital Technology (Calgary) Ltd. and CDP Computer Data Processors Ltd. The amalgamation became effective August 10, 1973.

This report has been prepared on a pooling of interest basis — the financial statements of the former companies have been combined for the period July 1 to August 10 and added to the results for Digitech Ltd. from August 11 to December 31.

Report to the Shareholders

Effective August 10, 1973 a statutory amalgamation brought together the Digitech companies and CDP Computer Data Processors Ltd. This amalgamation created the largest wholly Canadian geophysical/geological data processing company, whose shares are trading on the Toronto Stock Exchange.

As this report covers the full year, July 1, 1973 to June 30, 1974, the financial information is presented by combining the statements of the former companies on a pooling of interests basis.

THE YEAR IN REVIEW

Since the amalgamation the company has taken the following major steps:

- Arranged new financing in the amount of $512,500.
- Sold off excess computer hardware.
- Trimmed operating costs in several other areas.
- Expanded its office in London, England to serve North Sea and other European exploration.
- Opened a sales office in Denver to access Western United States markets.
- Broadened services to include the non-petroleum market in British Columbia.
- Initiated research programs for development of innovative methods including a comprehensive new software system for processing geophysical data on the Univac 1106.
- Opened up international market contacts for sale of Digitech software and expertise to countries installing their own exploration data processing facilities.

EXPANSION OF SERVICE

In the past year Digitech took aggressive action to expand its services and broaden its base both geographically and functionally. This expansion is in accordance with the objective of establishing and maintaining a position in the growing European and U.S. resource development industries, and reducing vulnerability to the possibility of changes in the Canadian market for company services. Offices opened in London and Denver are operating satisfactorily. However, a joint venture in Houston is in the process of being liquidated. During the year the company invested $505,000 in cash and assets for the development of the London and Houston offices.

A non-petroleum industry market for company services has been developed in British Columbia and now contributes to revenue.

The company has opened discussions in several countries which are desirous of developing capabilities for geological and geophysical exploration.

New equipment, and improvements to equipment, have broadened the service capacity of the company into non-seismic areas.

FINANCIAL

Digitech's sales in the past year were $4.2 million, an increase of 25% over the combined sales of Digitech and CDP the previous year, before the two companies amalgamated. Cash flow from operations was $325,000 or 21 cents per share.

Net loss in fiscal 1974 was $106,000. This figure reflects the following extraordinary circumstances: first, operations were below normal in the first quarter due to the amalgamation time and costs; in the second quarter, write-offs were taken on computers and equipment that were not needed for the company's operations, including one write-off of $104,000 for two computers; third, operating losses related to start-up costs of the offices in London, Houston and Denver, depleted the company's earnings by $110,000, primarily in the third and fourth quarters.

The company's working capital is now $8,000, an improvement of $312,000 from the position at the beginning of the fiscal year.

The details of the financing brought into the company in the past year are as follows:

In the second quarter Bow Valley Industries Ltd. and Canadian Enterprise Development Corporation Limited of Montreal provided a total of $287,500 with an option to convert this amount into 231,854 common shares of Digitech at any time before November 1, 1980.

In the third quarter Canadian Enterprise Development Corporation Limited provided $75,000 in the form of a note with an option to convert the entire amount into 60,484 common shares of the company at any time before November 1, 1980.

ACCOUNTING AND REPORTING POLICIES

In connection with the amalgamation, accounting policies of the two companies were conformed and other adjustments made:

- Goodwill and amalgamation costs were written off;
- In fiscal 1974 $237,000 was spent and has been expensed for software development by the Company.

The total effect of the above is to provide the new company with accounting policies and asset values for future periods which management believes are among the most conservative in the industry.

The 1973 statements presented in this report represent the combined results of Digitech and CDP prior to the amalgamation of the two companies on August 10, 1973.

EQUIPMENT CHANGES

In a transaction in the second quarter Digitech negotiated the disposition of a CDC 3300 computer. Also, the Raytheon Compac 75 system acquired in the CDP amalgamation was sold to the Houston joint venture for a 50 per cent equity position. The CDC 3300 disposition improved working capital and will cut future costs. A loss on these dispositions of $104,000 was absorbed and $157,000 in payments still due were converted from current liabilities to long term debt.

In the fourth quarter, hardware additions and improvements were made for processing seismic data on the Univac 1106. These improvements, combined with ongoing software improvements, will increase capability in the Calgary office in 1975 and will also provide marketable software to users of similar new generation computers. These improvements permitted the termination of a lease on two smaller computers.

The company has installed the fastest computerized drafting system in Canada which provides gridding and contouring and has applications in petroleum engineering, architectural drawings, forms design and technological drafting.

For the London office an EMR 6070 computer was purchased to service the expanding market for North Sea exploration data.

B. BERG
President

APPRECIATION

I would like to express my sincere gratitude and appreciation to the Directors, Management and Staff for their outstanding contribution to the progress of the company during our first year as an amalgamated company. With a continuation of the same kind of initiative, energy and cooperation the company has an excellent future.

B. Berg
President

Digitech Background

Digitech was founded in 1966 as a consulting firm to provide advice to clients on optimum methods of using digital computers to process seismic data. In 1967 an expanding market for data processing for natural resource exploration pointed the way to acquisition of computer facilities. Initially block time was purchased from U.S. computer service companies. But early customer demand made it imperative to locate company computer facilities in Calgary.

By 1971 Digitech had the opportunity to open a London office to provide management and operations services for a major U.K. client. In order to keep pace with the growing North Sea activities, independent facilities were installed in London in mid-1974 to serve industry in general.

On August 10, 1973 the Digitech companies amalgamated with CDP Computer Data Processors Ltd. Digitech had emphasized geophysical data processing and CDP geological data processing. The amalgamation gave clients of each access to the capabilities of the other. It also resulted in the pooling of knowledge and experience of a large number of very fine professionals and technicians. This team represents the best pool of talent in exploration data processing expertise in Canada and one of the best in the world.

In 1974 a sales office was opened in Denver to keep pace with the rapidly developing petroleum industry in the Western U.S. Rocky Mountain region.

Digitech Services

COMPUTER SERVICES

This service provides remote job entry and conversational time sharing on Digitech's Univac 1106 computer. Block time is purchased by many companies in a variety of industries throughout Western Canada.

OMEGA SYSTEM

The Omega System is an extremely valuable file of computerized information on over 70,000 oil, gas and exploratory wells in Western Canada. Data from this file is sold to petroleum exploration companies.

PRODUCTION DATA SYSTEM

Historical production data from wells in Alberta and British Columbia are maintained in a computerized file. Clients may assess production histories, pressure calculations, flows and other information.

CLIENT DATA

The company has software programs which can manipulate, list and create files of client-supplied data. This data can be merged with existing file data and retrieved and displayed as lists, charts or maps.

DIGITIZING

Analog information is converted to digital information from source material such as well logs, seismic sections, contoured maps, water depth maps, etc.

GRAPHIC DISPLAY

Digitech has a wide range of graphic display devices — including a flatbed plotter, an electrostatic plotter, a seismic plotter, a drum plotter and hard copy cathode ray tube terminals.

LAND SEISMIC COMPUTER PROCESSING

The company has acknowledged expertise in processing land seismic data from Canada, the U.S.A. and many other international exploration regions.

OFFSHORE SEISMIC COMPUTER PROCESSING

The company has processed marine seismic data from Canada's east coast, Hudson's Bay, Labrador Sea, Arctic, North Sea, southeast Asia, Australia and the Gulf Coast, U.S.A.

SEISPLOT

Digitech creates digital files of seismic reflections. Subsequent retrieval and processing with mathematical interpretation and graphical output saves clients professional and clerical effort.

SONIGRAM

This is a Digitech form of synthetic seismograms which includes a library of 7,000 wells in Western Canada, the Arctic Islands, east coast and parts of the United States.

GRAVITY AND MAGNETIC DATA

Digitech offers a varied range of services for the processing, display, and interpretation of gravity and magnetic geophysical data.

DIGITECH LTD.

Consolidated Balance Sheet

	June 30	
	1974	1973 (Note 1)
ASSETS		
Current assets:		
Cash and term deposits	$ 185,461	$ 113,956
Accounts receivable —		
Trade	913,336	708,074
Other (Note 3)	24,553	23,119
Inventories (Note 4)	207,222	120,547
Prepaid expenses	29,958	21,315
Prepaid rentals (Note 5)	210,000	—
Current portion of notes receivable	61,260	68,232
	1,631,790	1,055,243
Notes receivable, less current portion (Note 6)	83,731	151,120
Fixed assets (Note 7)	987,357	1,271,881
Programs and systems (Note 7)	312,540	—
Investment in and advances to 50% owned companies (Notes 7, 8 and 17)	146,488	25,423
Prepaid rentals (Note 5)	—	210,000
Other	839	926
	$3,162,745	$2,714,593

	June 30	
	1974	1973
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank loan and overdrafts (Note 5)	$ 392,443	$ 334,416
Accounts payable and accrued	662,361	477,198
Income taxes payable (Note 11)	115,000	117,178
Current portion of deferred revenue	27,722	—
Current portion of long-term debt	426,103	429,943
	1,623,629	1,358,735
Deferred revenue, less current portion	10,934	—
Long-term debt, less current portion (Note 9)	1,078,256	875,413
Shareholders' equity:		
Share capital (Notes 1 and 10) —		
Authorized —		
5,000,000 shares without nominal or par value		
100,000 preferred shares with a nominal or par value of $20 each		
Issued —		
1,634,139 shares without nominal or par value	792,236	717,236
Deficit (Notes 1 and 11)	(342,310)	(236,791)
	$3,162,745	$2,714,593

Commitments and contingent liabilities (Note 12)

APPROVED ON BEHALF OF THE BOARD:

B. BERG Director

R. BURKE Director

DIGITECH LTD.

Consolidated Statement of Loss

	Year ended June 30	
	1974	1973 (Note 1)
Revenue	$4,164,680	$3,325,906
Costs and expenses excluding depreciation and amortization:		
Operating and selling	2,957,567	2,453,176
General and administrative	700,305	595,067
Interest —		
Long-term debt	112,878	142,061
Other	39,251	11,411
Share of (income) loss of 50% owned companies (Note 13)	30,177	(11,914)
	3,840,178	3,189,801
Income before the following	324,502	136,105
Depreciation and amortization of fixed assets	225,811	321,083
Amortization of programs and systems	36,725	—
	262,536	321,083
Income (loss) before income taxes and extraordinary items	61,966	(184,978)
Provision for income taxes — deferred (Note 14)	93,000	—
Loss before extraordinary items	(31,034)	(184,978)
Extraordinary items:		
Reduction in income taxes — deferred (Note 14)	93,000	—
Costs related to the amalgamation (Note 15)	(167,485)	—
	(74,485)	—
Loss for the year	$ (105,519)	$ (184,978)
Loss per share:		
Loss per share before extraordinary items	$ (.02)	$ (.12)
Extraordinary items	(.05)	—
Loss per share for the year	$ (.07)	$ (.12)

Consolidated Statement of Deficit

	Year ended June 30	
	1974	1973
Balance, beginning of year (Note 11)	$ 236,791	$ 51,813
Loss for the year	105,519	184,978
Balance, end of year	$ 342,310	$ 236,791

DIGITECH LTD.

Consolidated Statement of Changes in Financial Position

	Year ended June 30	
	1974	1973 (Note 1)
Source of funds:		
From operations:		
Income before depreciation and amortization, income taxes and extraordinary items	$ 324,502	$ 136,105
Add: Net funds provided — extraordinary items:		
Proceeds on disposal of equipment	249,277	—
Amalgamation expenses	(48,389)	—
From operations including extraordinary items	525,390	136,105
Provision for, net of recoveries of, current income taxes	—	(4,794)
Repayments on notes receivable, including change in current portion	67,389	12,459
Issue of capital stock (1974, in payment of debt)	75,000	23,019
Issue of long-term debt (1973 — See below)	902,500	—
Prepaid rentals	210,000	—
Deferred revenue, reduction	10,934	—
Other	87	—
	1,791,300	166,789
Use of funds:		
Purchase of fixed assets, net of proceeds of disposal	309,660	334,288
Purchase of programs and systems	349,265	—
Prepaid rentals	—	210,000
Advances to 50% owned companies, net of share of losses	121,065	12,569
Repayment of long-term debt and changes in current portion (1973 — net of issue of long-term debt)	699,657	263,188
	1,479,647	820,045
Increase (decrease) in working capital	311,653	(653,256)
Working capital (deficiency) at beginning of year	(303,492)	349,764
Working capital (deficiency) at end of year (Note 9)	$ 8,161	$ (303,492)

DIGITECH LTD.

Notes to Consolidated Financial Statements

June 30, 1974

1. AMALGAMATION:

Pursuant to an agreement of August 10, 1973, CDP Computer Data Processors Ltd. ("CDP"), a company engaged in providing data processing services (geological and other) and Digitech Corp. Ltd. and its wholly-owned subsidiary ("DCL"), companies engaged in providing data processing services (geophysical and other), were amalgamated into Digitech Ltd. ("Digitech") (The "Company").

The amalgamation has been accounted for as a pooling of interests and the consolidated accounts of CDP, DCL, and Digitech have been combined for the year ended June 30, 1974 and for CDP and DCL for the year ended June 30, 1973.

The following presents the condensed financial positions of the companies and the combined financial position as of June 30, 1973 after giving effect to the following:

(i) Write-off of the unamortized costs of programs and systems in the accounts of CDP.

(ii) Recording DCL's inventory of magnetic tapes and replacement parts.

(iii) Elimination of DCL's provision for deferred income taxes.

(iv) Transfer of CDP's contributed surplus.

(v) The issue of 2,000 shares of DCL at $8 resulting in notes receivable of $16,000.

(vi) Write-off of CDP's unamortized goodwill.

(vii) Exchange of all CDP's outstanding shares (600,322 shares) for 600,322 shares of Digitech and all DCL's outstanding shares (73,861) for 983,817 shares of Digitech.

ASSETS	CDP (Audited)	DCL (Unaudited)	Adjustments	Combined
Current assets	$ 374,000	$ 652,000	(v) $ 2,000 (ii) 27,000	$1,055,000
Notes receivable, less current portion	109,000	28,000	(v) 14,000	151,000
Investment in 50% owned company	25,000	—	—	25,000
Fixed assets less accumulated depreciation and amortization	507,000	765,000	—	1,272,000
Prepaid rental	—	210,000	—	210,000
Unamortized goodwill	23,000	—	(vi) (23,000)	—
Unamortized programs and systems costs and other	217,000	—	(i) (217,000)	—
Other	—	1,000	—	1,000
	$1,255,000	$1,656,000		$2,714,000

LIABILITIES AND SHAREHOLDERS' EQUITY	CDP (Audited)	DCL (Unaudited)	Adjustments	Combined
Current liabilities	$ 626,000	$ 733,000	—	$1,359,000
Long-term debt less current portion	245,000	630,000	—	875,000
Deferred income taxes	—	157,000	(iii) (157,000)	—
Capital stock	600,000	101,000	(v) 16,000	717,000
Contributed surplus	949,000	—	(iv) (949,000)	—
Retained earnings (deficit)	(1,165,000)	35,000	893,000	(237,000)
	$1,255,000	$1,656,000		$2,714,000

The following table presents the condensed earnings (losses) of CDP and DCL, before income taxes, for the periods indicated after giving effect to adjustments indicated above:

	CDP Year ended June 30		DCL Year ended December 30		DCL Year ended June 30
	1972 (Audited)	1973 (Audited)	1971 (Unaudited)	1972 (Audited)	1973 (Unaudited)
Revenue	$1,961,000	$1,441,000	$1,366,000	$1,995,000	$1,897,000
Costs and expenses	1,804,000	1,543,000	1,106,000	1,364,000	1,659,000
Amortization and depreciation	182,000	142,000	121,000	150,000	179,000
	1,986,000	1,685,000	1,227,000	1,514,000	1,838,000
Income (loss) before income taxes	$ (25,000)	$ (244,000)	$ 139,000	$ 481,000	$ 59,000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation —

The consolidated financial statements include the accounts of Digitech and its wholly-owned subsidiaries:

Digitech Systems Co. Ltd.
Digital Technology (London) Ltd.
EDP Engineering Data Processors Ltd. (Inactive)
CDP Computer Data Processors, Inc. (Inactive)
Digitech International Ltd. (Inactive)

The consolidated financial statements also reflect Digitech's investment, carried on an equity basis, in GUS-Digitech, Inc., a 50% owned corporate joint venture.

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

Current assets and liabilities — at the rate of exchange on June 30, 1974.

Other assets and liabilities — at historical rates of exchange.

Revenue and expenses — at the average of monthly rates of exchange for the year, except provisions for depreciation and amortization which are translated on the same basis as the related assets.

Inventories —

The companies value work in progress on a percentage of completion basis. Other inventories are valued at cost which approximates replacement cost.

Depreciation and amortization —

Computer equipment and accessories are depreciated at rates designed to amortize the costs, less estimated salvage value (which in most cases represents 20% of cost), over a period of 60 months. Furniture and fixtures are depreciated over 120 months. Leasehold improvements are amortized over the terms of the lease.

Current program development costs are expensed as incurred, except those costs relating to programs, systems and data purchased from others after July 1, 1973. These latter costs are capitalized and amortized over a period of 60 months, commencing when purchases are made. The unamortized costs of any such items having doubtful future revenue producing potential are written off.

Income taxes —

For tax purposes the predecessor companies, on a combined basis, incurred net cumulative losses and claimed depreciation and programs and systems costs and amortization in amounts which were less than similar amounts charged against income for accounting purposes. No recognition has been given in the accounts for possible future tax benefits related thereto.

Earnings (loss) per share —

Basic earnings per share are calculated on the weighted average number of shares outstanding during the year after giving retroactive effect to the amalgamation referred to in Note 1. Fully diluted earnings per share are based on the assumption that all shares reserved for possible future issuance had been issued. If the result is anti-dilutive fully diluted earnings per share are not reported.

3. AMOUNTS OWING FROM DIRECTORS AND OFFICERS:

"Accounts receivable — other" includes amounts owing from officers and directors of $5,578 as at June 30, 1974.

"Notes receivable" include an amount owing from an officer of $8,832.

4. INVENTORIES:

Inventories consist of the following:

	1974	1973
Computer tapes	$ 61,625	$ 53,519
Spare parts	17,925	19,216
General supplies	8,264	6,644
Work in progress	119,408	41,168
	$207,222	$120,547

5. BANK LOAN:

The bank loan is secured by a general assignment of accounts receivable.

Subsequent to June 30, 1974, the Company received $210,000, which represented a refund of prepaid computer rentals. To replace this rental deposit the Company, in turn, issued an irrevocable letter of credit through its bank which reduced the Company's bank line of credit by $210,000.

6. NOTES RECEIVABLE CONSIST OF:

Notes arising on sale of computer hardware and software to Yacimientos Petroliferos Fiscales, Buenos Aires, Argentina. These notes are due in semi-annual instalments of $27,263, together with interest at 8%, are secured by title to the equipment and are pledged as security for the notes payable referred to in Note 9	$109,053
Notes arising from the exercise of stock options, due in instalments aggregating $5,234 per year:	
Employees	25,606
Officer	8,832
Former employee, secured	1,500
	144,991
Less: Portion due within one year	61,260
	$ 83,731

7. FIXED ASSETS — PROGRAMS AND SYSTEMS:

The costs, accumulated amortization and depreciation and net book values of fixed assets and programs and systems at June 30, 1974 are as follows:

	Costs	Accumulated amortization and depreciation	June 30 1974 Net book value	June 30 1973 Net book value
Computer equipment and accessories	$1,279,728	$573,982	$705,746	$1,075,402
Furniture and fixtures	144,494	60,850	83,644	62,922
Leasehold improvements	215,092	17,125	197,967	133,557
Totals	$1,639,314	$651,957	$987,357	$1,271,881
Programs and systems	$ 349,265	$ 36,725	$312,540	$ —

Programs and systems costs relate mainly to the Omega file, a computerized record of geological and geophysical data on wells drilled in Western Canada. The file was acquired from a company in which CDP previously owned 50% of the share capital. Prior to acquiring 100% of the file, the share, representing this 50% interest, was sold to the other shareholder. In the opinion of management the Omega file has a value of at least its purchase price of $390,-000; however for accounting purposes the purchase price of the file has been reduced by the excess ($48,435) of the consideration received for the share (50% interest) over the carried cost of the investment in the share.

8. INVESTMENT IN GUS - DIGITECH, INC.

This account consists of the following:

Cash advances, net	$ 27,422
Computer equipment and accessories sold to GUS - Digitech, Inc.	147,500
50% share of loss to June 30, 1974	(28,434)
	$146,488

9. LONG-TERM DEBT:

	1974	1973
Conditional sales agreements payable, excluding interest of $27,000. (1973 - $88,000), interest rates of 8% to 11%, secured by retention of title to specific equipment, due in equal monthly instalments of approximately $19,500.	$ 409,365	$ 600,071
Notes payable, interest at 7¾%, repayable in five equal annual instalments from 1976 to 1980, inclusive. The notes carry options to purchase shares, and are unsecured but their terms include restrictions with respect to incurring debt and lease commitments and with respect to other matters (Note 10)	612,500	250,000
Chattel mortgage, excluding interest of $45,200, interest rate of 13%, secured by specific equipment, due in equal monthly instalments of $3,414	138,971	—
Conditional sales agreement, secured by "Omega File", payable in annual instalments of $56,250	168,750	—
Agreement for sale "Omega File", payable $30,000 in each of fiscal 1975 and 1976.	60,000	—
Notes payable, secured by pledge of notes receivable, payable in semi-annual instalments of $24,537 plus interest at 1.5% above New York prime rate (Note 6).	98,147	147,192
Conditional sales contract, secured by retention of title to CDC 3300 computer, payable in monthly instalments of $9,789 including interest at 12% per annum	—	259,683
Other notes and conditional sales contracts payable, with interest at rates from 4% to 8.5% per annum	16,626	48,410
	1,504,359	1,305,356
Less: Current portion, including arrears (i)	426,103	429,943
	$1,078,256	$ 875,413

Amounts due in each of the next five years are as follows:

Fiscal 1975	$426,103
1976	362,760
1977	220,010
1978	158,340
1979	142,146

(i) Under the terms of certain of the conditional sales agreements, the failure to make a payment on time results, at the lender's option and upon notice, in the full balance becoming due and payable. Since notice has not been received, the amount shown as current portion includes only fiscal 1975 payments due together with arrears to date. Had notice been received the current portion and current liabilities would be increased by $133,875 and working capital, now shown as $8,161 would become a deficiency of $125,714.

10. SHARE CAPITAL:

Share capital has been issued as follows:

	Number of shares	Amount
On amalgamation of CDP and DCL (Note 1)	1,584,139	$717,236
Shares issued in payment of Agreement for sale, "Omega File"	50,000	75,000
	1,634,139	$792,236

Of the authorized but unissued common stock, 587,662 shares are reserved at June 30, 1974 for the following:

(i) The 7¾% unsecured notes provide that the holders may purchase an aggregate of up to 275,644 shares at $0.91 per share to November 1, 1980.

(ii) The 7¾% unsecured notes provide that the holders may purchase an aggregate of up to 292,338 shares at $1.24 per share to November 1, 1980.

(iii) Options granted as to an aggregate of 19,680 shares to officers and employees of the Company under the terms of the Employee Incentive Stock Option Plan. Options are exercisable within a period of five years from date of grant.

At June 30, 1974 the following had been granted under the Plan:

		Option price		Approximate market value at date of grant	
Date Option Granted	Number of shares	Per share	Total	Per share	Total
December 15, 1970	3,680	$1.44	$ 5,299	$1.65	$ 6,072
December 13, 1971	1,000	1.10	1,100	1.25	1,250
September 6, 1972	4,000	2.02	8,080	2.25	9,000
May 4, 1973	11,000	1.35	14,850	1.50	16,500
	19,680				

11. DEFICIT:

Balance as at June 30, 1972:		
CDP (as reported) deficit		$891,496
DCL (unaudited) retained earnings		18,107
		873,389
Add (less): Adjustments to conform accounting practices and other adjustments based on June 30, 1972 amounts:		
CDP —		
Write off unamortized costs of programs and systems	$238,077	
Write off unamortized costs of goodwill	31,397	
Transfer of contributed surplus	(948,963)	
DCL —		
Record inventory of magnetic tapes and replacement parts	(27,082)	
Write off deferred income tax provision	(70,513)	
		(777,084)
		96,305

Add: Provision for possible 1972 income tax reassessment, DCL		115,000
		211,305
Less:		
DCL prior period adjustments, mainly with respect to debt forgiven	49,286	
DCL recoveries of current taxes, as a result of carrying losses back	110,206	
		159,492
Restated combined balance as at June 30, 1972		$ 51,813

12. COMMITMENTS AND CONTINGENT LIABILITIES:

The companies have the following lease commitments:

Description	Expiry	Approximate Monthly Cost
Office space	1983	$16,000
Office space	1993	1,100
Equipment	1975	9,000
Equipment	1979	41,000

Under an agreement dated January 30, 1973 with a non-affiliated U.S. corporation, the Company granted exclusive marketing rights to its seismic and graphics systems for a period of five years. The agreement is presently being renegotiated.

13. SHARE OF (INCOME) LOSS OF 50% OWNED COMPANIES:

	1974	1973
Share of loss, GUS - Digitech, Inc.	$28,434	$ —
Share of (income) loss, Omega Systems Ltd. in fiscal 1974, net of $11,500 management fee income (Note 7)	1,743	(11,914)
	$30,177	$(11,914)

14. INCOME TAXES:

As outlined in Note 2, no provision has been made for possible future tax benefits which may result from claiming costs not previously claimed for tax purposes.

As a result of claiming certain of these costs in fiscal 1974, taxes otherwise payable were reduced by approximately $93,000. This reduction has been shown as an extraordinary item of income. It has been calculated as follows:

Income before taxes and extraordinary items	$ 62,000
Add:	
Equity in net losses of 50% owned companies — 1974 (excluding management fee)	42,000
Losses (including start-up costs) of U.K. subsidiary — 1974	82,000
Accounting income on a tax basis	$186,000
Assuming a 50% tax rate	$ 93,000

At June 30, 1974, the undepreciated cost of fixed assets and programs and systems, for Canadian tax purposes, exceeded the related amounts, for accounting purposes, by approximately $1,100,000. Actual tax losses remaining to be carried forward and claimable to 1978 amounted to $10,000. Assuming a 50% tax rate, possible future Canadian tax benefits could amount to approximately $550,000. Since such benefits are not virtually assured, they have not been recorded.

In addition, the U.K. subsidiary has on a cumulative basis, incurred losses (mainly as a result of start-up costs) of approximately $118,000.

15. COSTS RELATED TO THE AMALGAMATION:

Amalgamation costs consist of the following items:

Expenses:	
Legal fees	$ 25,259
Accounting and audit fees	16,800
Printing costs	4,257
Stock exchange fees	1,500
Elimination of duplicate facilities and excess capacity:	
Loss on disposal of equipment	103,913
Loss with respect to leasehold improvements	6,278
Moving costs, etc.	9,478
	$167,485

16. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

During fiscal 1974 there were thirteen directors and five officers, of whom three were also directors. Directors' fees and officers' remuneration for the year amounted to $3,300 and $121,867, respectively. Officers who are also directors receive no remuneration in their capacity as directors.

17. SUBSEQUENT EVENT:

On September 11, 1974 the Company received notice that Globe Universal Sciences, Inc. (GUS), the other 50% shareholder in the joint venture company, GUS-Digitech, Inc., wished to terminate the joint venture operations.

On liquidation, and after paying all liabilities, each shareholder is to receive an amount equal to the depreciated value of the equipment it originally sold to the joint venture (or the actual equipment) and the balance of any funds is to be distributed equally.

Amounts which may be realized on such liquidation cannot be determined accurately at this time and it is possible that a loss could result. No provision has been made in the accounts at June 30, 1974 for any such loss.

Auditors' Report

To the Shareholders of
DIGITECH LTD.

We have examined the consolidated balance sheet of Digitech Ltd. as at June 30, 1974 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As outlined in Note 17 a decision has been made to liquidate the 50% owned company, GUS-Digitech, Inc. A loss could result and the carried value of the investment may not be realized. The amount of the loss is not presently determinable and no provision has been made in the accounts.

In our opinion, subject to the effect of such adjustments as might have been required had the amount of the loss referred to above been known, these consolidated financial statements present fairly the financial position of the companies as at June 30, 1974 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

As indicated in Note 1, we did not examine the consolidated financial statements of Digitech Corp. Ltd. as at June 30, 1973 and do not express an opinion on the consolidated financial statements of Digitech Ltd. as at June 30, 1973 or for the year then ended.

PRICE WATERHOUSE & CO.
Chartered Accountants

Calgary, Alberta
September 26, 1974
Except as to Note 17 as to which the date is October 24, 1974

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